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Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 STRE-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

XMB-02 OPIC-03 /097 W
---------- 086053
R 291420Z JAN 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8535
INFO USMISSION EC BRUSSELS

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DEPARTMENT PASS STR

E.O. 11652: N/A
TAGS: ETRD, UK, EEC
SUBJECT: UK TARIFF TREATMENT OF KRAFT LINERBOARD

REF: (A) STATE 165, (B) TARRANT/BARRACLOUGH TELCON

1. SUMMARY. EMBASSY HAS AGAIN BROUGHT TO THE ATTENTION OF THE DEPARTMENT OF TRADE (ASSISTANT SECRETARY JONES) THE SERIOUSNESS WITH WHICH WE VIEW THEIR ASSESSMENT OF HIGHER DUTIES ON UK KRAFT LINERBOARD AND THE NEED TO RESOLVE THE MATTER AS QUICKLY AS POSSIBLE. JONES HAD NO FORMAL REPLY TO GIVE US AT THIS TIME SINCE DELIBERATIONS ARE STILL GOING ON WITHIN THE UKG. EMBASSY'S ASSESSMENT IS THAT WE MAY BE MOVING TOWARD AN IMPASSE IN WHICH BOTH SIDES FEEL THEY REACHED AGREEMENT IN GOOD FAITH DURING THE 24:6 NEGOTIATIONS. BUT THAT EACH SIDE DID SO ON THE BASIS OF ITS OWN DIFFERING AND UNVERIFIED
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DEFINITION OF WHAT CONSTITUTES KRAFT LINER FOR

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TARIFF PURPOSES. EMBASSY PROPOSES THAT WE BE PRE-
PARED IN THE EVENT OF IMPASSE ON THIS BASIS TO SEEK
A TEMPORARY REDUCTION OF UK TARIFF FOR THE REMAINING
L7 MONTHS BEFORE TARIFF APPLIED TO US LINER DECLINES
TO THAT APPLIED TO OUR SCANDINAVIAN COMPETITORS.
ON TECHNICAL LEVEL, OUR EXCHANGES OF INFORMATION
WITH HM CUSTOMS AND UKG TESTING LABORATORY HAVE NOT
RESULTED IN ANY CHANGE IN THEIR VIEWS REPORTED
EARLIER. EMBASSY SUGGESTS A TEST CASE USING RECENT
GREAT NORTHERN SHIPMENT. END SUMMARY

2. ON THE POLICY LEVEL, OUR CONVERSATIONS WITH
JONES LEAD US TO THINK THAT THE UKG MAY TAKE THE
AMITION THAT THERE HAS BEEN NO VIOLATION OF AGREE-
MENT OR IMPROPRIETY ON THE PART OF BRITAIN OR THE
EC BECAUSE IN AGREEING TO THE 24:6 CONCESSION ON
KRAFT LINER THEY ASSUMED ALL ALONG THAT THE US KNEW AND
ACCEPTED THE UK DEFINITION THAT REQUIRED IMPORTS TO
BE "WHOLLY" OF SULPHATE CELLULOSE FIBER. IF THE UK
RESPONSE DOES DEVELOP ALONG THESE LINES AND THERE IS
NO WRITTEN RECORD OF UNDERSTANDING ON THIS POINT FROM
THE 24:6 NEGOTIATIONS, WE MAY FIND OURSELVES AT AN
IMPASSE IN WHICH BOTH SIDES CLAIM TO HAVE MADE THEIR
DECISIONS ON THE BASIS OF WHAT THEY UNDERSTOOD TO BE
THE OPERATIVE DEFINITION OF KRAFT LINER FOR TARIFF
PUR POSES: 80 PER CENT FROM THE US SIDE AND "WHOLLY"
FROM THE EC/UK SIDE. EMBASSY WOULD APPRECIATE
RECEIVING ANY INFORMATION ON THIS ASPECT OF THE 24:6
AGREEMENT THAT USEC OR STR MAY HAVE.

3. WITH THIS POSSIBLE OUTCOME IN MIND WE HAVE BEGUN
TO CONSIDER OPTIONS THAT WOULD BE OPEN TO THE US.
WE COULD RAISE THE ISSUE WITH THE COMMISSION IN
BRUSSELS SINCE THEY REPRESENTED ALL EC COUNTRIES IN THE
24:6 AGREEMENT AND HAVE RESPONSIBILITY FOR TRADE
NEGOTIATIONS. HOWEVER, FROM EMBASSY'S PERSPECTIVE
THE NEGOTIATING CLIMATE WITH THE COMMISSION DOES NOT
SEEM TO BE AS POTENTIALLY PRODUCTIVE AS DEALING BI-
LATERALLY WITH THE UK. WE THEREFORE RECOMMEND KEEPING
THE DISCUSSIONS IN LONDON UNTIL ALL REASONABLE POSSI-
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BILITIES HAVE BEEN EXPLORED.

4. WE SUGGEST DEPARTMENT CONSIDER MAKIRG USE OF UK
PROCEDURES WHICH ALLOW THE GOVERNMENT TO TEMPORARILY
SUSPEND OR MODIFY A TARIFF PROVISION (UK IMPORT DUTIES
ACT AS AMENDED BY EUROPEAN COMMUNITIES ACT OF 1973).
EMBASSY'S INITIAL INVESTIGATION INDICATES THIS WOULD
INVOLVE A SPECIFIC REQUEST FOR SUS PENSION BEING SUB-

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MITTED, A PUBLIC ANNOUNCEMENT TO SEEK VIEWS OF
INTERESTED PAPTIES, A POSITIVE DECISION BY DEPARTMENT
OF TRADE, AND SUBORDINATE LEGISLATION APPROVED BY
THE PARLIAMENT. WE UNDERSTAND PAST CASES HAVE TAKEN
60 - 90 DAYS TO COMPLETE AND PARLIAMENTARY APPROVAL
DOES NOT APIS HAVE BEEN A MAJOR HURDLE. THE
PROCEDURE WOULD REQUIRE A POLITICAL DECISION BY UKG
TO SUPPORT SUCH A REQUEST AND TO PUSH IT THROUGH.

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5. THERE WOULD BE NO GUARANTEE OF SUCCESS, BUT
DEPARTMENT OF TRADE SEEMS GENUINELY INTERESTED IN
FINDING A REASONABLE SOLUTION TO THE PROBLEM AND TO
BEST OF EMBASSY'S PRESENT KNOWLEDGE THERE ARE NO
SIGNIFICANT BUSINESS ELEMENTS HERE THAT WOULD OBJECT.
IN FACT, WE MIGHT PICK U:P SUPPORT FROM UK LINER
INDUSTRY WHICH IS ALMOST EXCLUSIVELY BASED ON RECYCLING

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THE VIRGIN FIBER THAT COMES FROM IMPORTS OF NEW KRAFT
LINER. POSSILE OPPOSITION MIGHT COME FROM IMPORTERS
OF SCANDINAVIAN LINER. CONSIDERATION WOULD ALSO
HAVE TO BE GIVEN TO WHETHER SUCH A PROCEDURE MIGHT
ESTABLISH ANY PRECEDENT THAT WOULD WEAKEN USG POSITION
ON PRINCIPLES INVOLVED IN 24:6 SETTLEMENT. ON BALANCE,
HOWEVER, WE SEE TEMPORARY SUSPENSION PROCESS AS
POTENTIALLY THE MOST USEFUL WAY OF AVOIDING A PRO-
LONGED AND IRRITATING SITUATION. DEPARTMENT'S VIEWS
ON THIS OPTION ARE REQUESTED.
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6. ON TECHNICAL LEVEL OF THIS CASE, THERE REMAIN
SOME QUESTIONS OF FACT TO BE RESOLVED. WE HAVE
PRESENTED MOST RECENT TECHNICAL VIEWS (STATE 14/728)
TO BOTH HM CUQTOMS AND UK GOVERNMENT TESTING LABORA-
TORY OFFICIALS DIRECTLY RESPONSIBLE THEY REMAIN
CONVINCED THAT ALL TESTS PRIOR TO 1975 SHOWED US
LINER TO BE WHOLLY OF SULPHATE CELLULOSE FIBER AND
THOSE AFTER APRIL 1975 TO BE, IN MOST CASES, 85 - 95
PER CENT PURE RECENT EMBASSY CHECKS INDICATE THAT
ALL IMPORTS OF US KRAFT LINER ARE NOW BEING TESTED
FOR SULPHATE CELLULOSE FIBER CONTENT AND DUTY ASSESSED
ON EACH SHIPMENT ON BASIS OF THE SPECIFIC TEST.

7. A GOOD TEST CASE ON THE TECHNICAL ISSUE WOULD BE
THE GREAT NORTHERN SHIPMENT (PARA 3 REFTEL) IN WHICH
THE COMPANY SENT 100 PER CENT LINER AND HM CUSTOMS FOUND
IT NOT WHOLLY OF SULPHATE CELLULOSE FIBER AND ASSESSED
THE HIGHER DUTY. THIS COULD BE DONE SIMPLY WITHOUT
GREAT NORTHERN GIVING UP ANY PROPRIETARY INFORMATION
IF THE SHIPMENT IS JUST IDENTIFIED. UK GOVERNMENT LAB
RETAINS ALL TEST SAMPLES AND IN RESPONSE TO OUR
INQUIRIES SAID IT IS WILLING TO GIVE U:S SAMPLE FROM
GREAT NORTHERN SHIPMENT SO USG COULD MAKE ITS OWN
DETERMINATION ON THIS POINT. TO ALLOW UK TO IDENTIFY
SHIPMENT ALL WE NEED TO DO IS SUPPLY THEM WITH UK
CUSTOMS ENTRY NUMBER (CONTAINED ON UK FORM C 10). WHICH
IS KEPT BY LOCAL UK IMPORTER AND/OR GREAT NORTHERN.
EMBASSY RECOMMENDS DEPARTMENT SEE IF THIS I"FORMATION
COU:LD BE MADE AVAILABLE AS A SPECIFIC TEST CASE TO
ASSIST IN RESOLVING THE TECHNICAL SIDE OF THIS MATTER.

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